

**BENTON HARBOR CHARTER SCHOOL ACADEMY**

**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary and additional information)**

**YEAR ENDED JUNE 30, 2007**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Benton Harbor Charter School Academy  
Benton Harbor, Michigan

October 12, 2007

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Benton Harbor Charter School Academy (the Academy), as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Benton Harbor Charter School Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Benton Harbor Charter School Academy as of June 30, 2007 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors  
Benton Harbor Charter School Academy  
Benton Harbor, Michigan

October 12, 2007

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2007, on our consideration of Benton Harbor Charter School Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi through xii and 22, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Benton Harbor Charter School Academy's basic financial statements. The additional information on pages 24 through 28 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Maner, Costerisan + Ellis, P.C.*

Certified Public Accountants

## MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Benton Harbor Charter School Academy’s (Academy) annual financial report presents our discussion and analysis of the Academy’s financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the Academy’s financial statements, which immediately follow this section.

### Financial Highlights

- The Academy had an excess of revenues over expenditures in the general fund of \$302,495 compared to a budgeted figure of \$177,149. This gives the Academy a fund balance in the general fund of \$546,537.
- The Academy retired \$80,000 in long-term debt during the year.
- The Academy invested \$83,600 in capital assets during the year. This purchase was funded by a three year bank note in the same amount.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are academy-wide financial statements that provide both short-term and long-term information about the Academy’s overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Academy, reporting the Academy’s operations in more detail than the academy-wide statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The

statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy’s budget for the year. Table A-1 shows how the various parts of the annual report are arranged and related to one another.

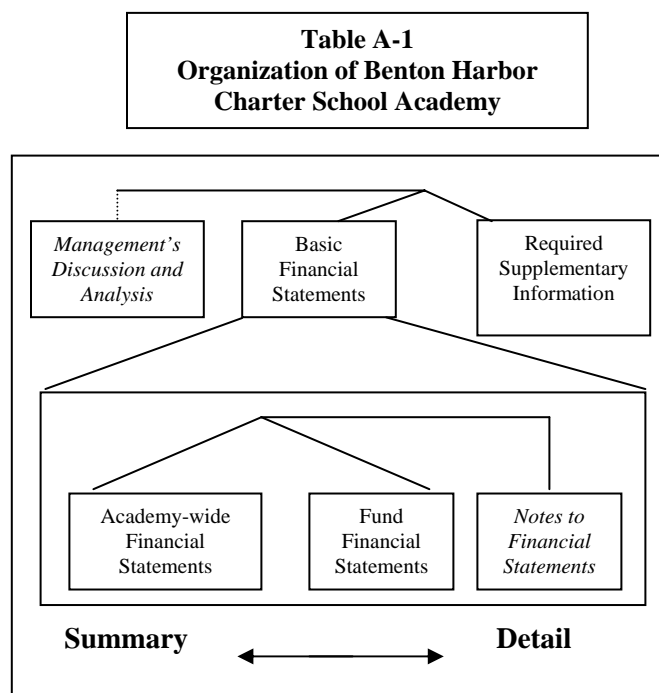


Table A-2 summarizes the major features of the Academy’s financial statements, including the portion of the Academy’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

<b>Table A-2 Major Features of the Academy-wide and Fund Financial Statements</b>			
	Fund financial statements		
	Academy-wide statements	Governmental funds	Fiduciary funds
Scope	Entire Academy (except fiduciary funds)	The activities of the Academy that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the Academy administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, the Academy's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

### **Academy-wide statements**

The academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two academy-wide statements report the Academy’s net assets and how they have changed. Net assets - the difference between the Academy’s assets and liabilities, are one way to measure the Academy’s financial health or position.

- Over time, increases or decreases in the Academy’s net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy’s enrollment, the condition of school buildings and other facilities, and the Academy’s ability to be competitive with other public school academies and area school districts.

Governmental activities - The Academy's basic services are included in the general fund, such as regular education and special education, transportation and administration. State foundation aid finances most of these activities.

### **Fund financial statements**

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds - not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by State law and by debt agreements.
- The Academy establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like food services).

All of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

### **Financial analysis of the Academy as a whole**

Net assets - the Academy's combined net assets (deficit) of \$(213,668) decreased by \$232,903 during the year, See Figures A-3 and A-4. The most significant factor was sound expenditure management.

The total general and program revenues decreased by 1% to \$4,077,925. State aid foundation allowance included in revenue from state sources accounts for 72% of the Academy's general and program revenues in 2007.

The total cost of instruction decreased by 1% to \$1,492,324. Total support service decreased by 16% to \$1,438,515. This decrease resulted primarily from savings in transportation costs.



**Figure A-3**  
**Benton Harbor Charter School Academy**

	2007	2006
Current assets	\$ 860,792	\$ 1,584,246
Restricted investments	838,288	752,202
Capital assets, net	5,004,510	5,099,683
Total assets	6,703,590	7,436,131
Current liabilities	504,802	1,442,702
Long-term debt outstanding	6,412,456	6,440,000
Total liabilities	6,917,258	7,882,702
Net assets:		
Invested in capital assets, net of related debt	(1,519,090)	(1,420,317)
Restricted for debt service	825,916	801,930
Unrestricted	479,506	171,816
Total net assets (deficit)	\$ (213,668)	\$ (446,571)

**Figure A-4**  
**Changes in Benton Harbor Charter School Academy's Net Assets**

	2007	2006
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 965,266	\$ 941,037
Charges for services	33,140	34,657
General revenues:		
State aid - unrestricted	2,940,066	3,015,641
Investment income	55,527	41,095
Other	83,926	83,300
Total general revenues	3,079,519	3,140,036
Total revenues	4,077,925	4,115,730
Expenses:		
Instruction	1,492,324	1,504,714
Support services	1,438,515	1,714,467
Food services	221,363	236,768
Athletics		12,848
Interest and fees	514,047	531,508
Unallocated depreciation	178,773	146,931
Total expenses	3,845,022	4,147,236
Change in net assets	\$ 232,903	\$ (31,506)

## Financial analysis of the Academy's funds

The financial operation of the Academy is considered stable. The fund balance at June 30, 2007 is \$546,537 in the general fund. There was a 2% increase in general fund revenue. There was a 1% decrease in expenditures for instructional programs and a decrease of 13% in expenditures for support services.

### General fund budgetary highlights

#### Final budget vs. Actual

<u>Fiscal year</u>	<u>Final budget</u>	<u>Final actual</u>
Revenues		
2006 - 2007	<u>\$ 3,851,160</u>	<u>\$ 3,816,070</u>
Expenditures		
2006 - 2007	<u>\$ 3,159,611</u>	<u>\$ 3,014,439</u>

#### Original vs. Final budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Benton Harbor Charter School Academy amends its budget periodically as needed during the school year. For fiscal year 2006-2007, the budget was amended prior to June 30, 2007.

#### Revenues

Total revenues original budget	\$ 3,977,087
Total revenues final budget	<u>3,851,160</u>
Decrease in budgeted revenues	<u>\$ (125,927)</u>

The Academy's final general fund revenues were less than the final budget by \$35,090. This variance was primarily a result of unspent grant funds at the end of the year.

#### Expenditures

The Academy's budget for expenditures changed as follows during the year.

Total expenditures original budget	\$ 3,232,027
Total expenditures final budget	<u>3,159,611</u>
Decrease in budgeted expenditures	<u>\$ (72,416)</u>

The Academy's actual expenditures were less than final budget by \$145,172. This difference was primarily due to a decrease in unspent grant funds and lower transportation costs.

## Capital asset and debt administration

### *Capital assets*

By the end of the year ended June 30, 2007, the Academy had invested \$5,004,510 in capital assets consisting primarily of land, buildings and improvements, equipment and furniture net of accumulated depreciation. This amount represents a net decrease in capital assets of \$95,173 from the beginning of the year. More detailed information about capital assets can be found in Note 4 to the financial statements. Total depreciation expense for the year was \$178,773.

The Academy's capital assets are as follows:

<b>Figure A-5</b>				
<b>Benton Harbor Charter School Academy's Capital Assets</b>				
	<b>2007</b>			<b>2006</b>
	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>	<b>Net book value</b>
Building and improvements	\$ 3,593,940	\$ 439,258	\$ 3,154,682	\$ 3,227,766
Furniture and equipment	170,866	43,873	126,993	147,452
Vehicles	83,600	23,222	60,378	
Technology	303,942	141,485	162,457	224,465
Land	1,500,000		1,500,000	1,500,000
Total	<u>\$ 5,652,348</u>	<u>\$ 647,838</u>	<u>\$ 5,004,510</u>	<u>\$ 5,099,683</u>

### Debt administration

The Academy financed its facilities acquisition by issuing Certificates of Participation. A summary of long-term debt service activities is as follows:

	<u>2007</u>	<u>2006</u>
Governmental activities:		
Certificates of participation	\$ 6,440,000	\$ 6,520,000
Bank note	<u>83,600</u>	
Total	<u>\$ 6,523,600</u>	<u>\$ 6,520,000</u>

The Academy repaid \$80,000 of certificates of participation in 2007. No payments were made on the bank note during 2007. See Note 6 of the financial statements.

### **Economic Factors bearing on the Academy's future**

At the time these financial statements were prepared and audited, the Academy was aware of existing circumstances that could significantly affect its financial health in the future.

- Changes to the foundation allowance for the next year have yet to be determined. Due to State budget issues and possible future cuts, the Academy has budgeted a reduction in foundation allowance of \$60 to \$7,025 per pupil.
- The Academy has adopted a general fund budget with an excess of revenues over expenditures of \$19,443.
- The Academy Board of Directors has authorized up to \$8,500,000 in Limited Obligation Revenue Refunding Bonds. These bonds will be used to refinance the Series 2002 Certificates of Participation. As of the report date, the bonds had not been issued.

### **Contacting the Academy's financial management**

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's Management Company, Choice Schools Associates, LLC, at P.O. Box 141493, Grand Rapids, Michigan, 49514. Phone (616) 785-8440.

**BENTON HARBOR CHARTER SCHOOL ACADEMY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2007**

	<b>Governmental activities</b>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 116,178
Receivables:	
Accounts receivable	4,116
Due from other governmental units	719,264
Prepaid expenses	21,234
<b>TOTAL CURRENT ASSETS</b>	<b>860,792</b>
<b>NONCURRENT ASSETS:</b>	
Restricted investments	838,288
Capital assets	5,652,348
Less accumulated depreciation	(647,838)
Net capital assets	5,004,510
<b>TOTAL NONCURRENT ASSETS</b>	<b>5,842,798</b>
<b>TOTAL ASSETS</b>	<b>\$ 6,703,590</b>
<b>LIABILITIES AND NET DEFICIT</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 45,207
Accrued interest	84,517
Accrued salaries and related items	240,425
Other accrued expenses	16,009
Deferred revenue	7,500
Current portion of long-term obligations	111,144
<b>TOTAL CURRENT LIABILITIES</b>	<b>504,802</b>
<b>NONCURRENT LIABILITIES:</b>	
Noncurrent portion of long-term obligations	6,412,456
<b>TOTAL LIABILITIES</b>	<b>6,917,258</b>
<b>NET DEFICIT:</b>	
Invested in capital assets, net of related debt	(1,519,090)
Restricted for debt service	825,916
Unrestricted	479,506
<b>TOTAL NET DEFICIT</b>	<b>(213,668)</b>
<b>TOTAL LIABILITIES AND NET DEFICIT</b>	<b>\$ 6,703,590</b>

**BENTON HARBOR CHARTER SCHOOL ACADEMY**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2007**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 1,492,324	\$	\$ 616,890	\$ (875,434)
Support services	1,438,515	33,140	127,411	(1,277,964)
Food services	221,363		220,965	(398)
Interest and fees	514,047			(514,047)
Unallocated depreciation	178,773			(178,773)
Total governmental activities	<u>\$ 3,845,022</u>	<u>\$ 33,140</u>	<u>\$ 965,266</u>	<u>(2,846,616)</u>
General revenues:				
Investment earnings				55,527
State sources				2,940,066
Local sources				47,880
ISD sources				<u>36,046</u>
Total general revenues				<u>3,079,519</u>
<b>CHANGE IN NET ASSETS</b>				232,903
<b>NET DEFICIT</b> , beginning of year				<u>(446,571)</u>
<b>NET DEFICIT</b> , end of year				<u>\$ (213,668)</u>

BENTON HARBOR CHARTER SCHOOL ACADEMY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

	General fund	Debt service fund	Nonmajor governmental funds	Total governmental funds
ASSETS				
ASSETS:				
Cash	\$ 112,703	\$	\$ 3,475	\$ 116,178
Investments		788,433	49,855	838,288
Receivables:				
Accounts receivable	4,116			4,116
Due from other governmental units	692,478		26,786	719,264
Due from other funds	21,481			21,481
Prepaid expenditures	21,234			21,234
TOTAL ASSETS	\$ 852,012	\$ 788,433	\$ 80,116	\$ 1,720,561

LIABILITIES AND FUND BALANCES

LIABILITIES:				
Accounts payable	\$ 41,541	\$	\$ 3,666	\$ 45,207
Accrued salaries and related items	240,425			240,425
Other accrued expenses	16,009			16,009
Deferred revenue	7,500			7,500
Due to other funds			21,481	21,481
TOTAL LIABILITIES	305,475		25,147	330,622

	General fund	Debt service fund	Nonmajor governmental funds	Total governmental funds
FUND BALANCES:				
Reserved for debt service	\$ 122,000	\$ 788,433	\$	\$ 910,433
Reserved for prepaid expenditures	21,234			21,234
Reserved for capital projects			49,855	49,855
Unreserved, undesignated	403,303		5,114	408,417
TOTAL FUND BALANCES	546,537	788,433	54,969	1,389,939
TOTAL LIABILITIES AND FUND BALANCES	\$ 852,012	\$ 788,433	\$ 80,116	\$ 1,720,561

Total governmental fund balances	\$ 1,389,939
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds

The cost of the capital assets is	\$ 5,652,348	
Accumulated depreciation is	(647,838)	5,004,510

Long-term liabilities are not due and payable in the current period and are not reported in the funds:

Certificates of participation	(6,440,000)
Note payable	(83,600)
Accrued interest is not included as a liability in government funds, it is recorded when paid	(84,517)

Net deficit of governmental activities	\$ (213,668)
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**BENTON HARBOR CHARTER SCHOOL ACADEMY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2007**

	General fund	Debt service fund	Nonmajor governmental funds	Total governmental funds
<b>REVENUES:</b>				
Local sources:				
Rentals, private sources	\$ 73,352	\$ 36,563	\$ 4,327	\$ 73,352
Investment income	14,637			55,527
Other	7,668			7,668
Total local sources	95,657	36,563	4,327	136,547
State sources	3,366,369		4,230	3,370,599
Federal sources	336,021		216,735	552,756
Intermediate sources	18,023			18,023
Total revenues	3,816,070	36,563	225,292	4,077,925
<b>EXPENDITURES:</b>				
Instruction:				
Basic programs	906,351			906,351
Added needs	585,973			585,973
Total instruction	1,492,324			1,492,324
Support services:				
Pupil	55,142			55,142
Instructional staff	78,060			78,060
General administration	461,782			461,782
School administration	239,163			239,163
	General fund	Debt service fund	Nonmajor governmental funds	Total governmental funds
<b>EXPENDITURES (Concluded):</b>				
Support services (Concluded):				
Business	\$ 31,729	\$ 80,000	\$ 221,363	\$ 31,729
Operation and maintenance	323,359	515,380		323,359
Pupil transportation services	319,658			319,658
Central support services	13,222			13,222
Total support services	1,522,115			1,522,115
Food service			221,363	221,363
Debt service:				
Principal retirement		80,000		80,000
Interest and fiscal charges		515,380		515,380
Total expenditures	3,014,439	595,380	221,363	3,831,182
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>				
	801,631	(558,817)	3,929	246,743
<b>OTHER FINANCING SOURCES (USES):</b>				
Loan proceeds	83,600			83,600
Operating transfers in		582,736	8,266	591,002
Operating transfers out	(582,736)	(8,266)		(591,002)
Total other financing sources (uses)	(499,136)	574,470	8,266	83,600
<b>NET CHANGE IN FUND BALANCES</b>				
	302,495	15,653	12,195	330,343
<b>FUND BALANCES:</b>				
Beginning of year	244,042	772,780	42,774	1,059,596
End of year	\$ 546,537	\$ 788,433	\$ 54,969	\$ 1,389,939



**BENTON HARBOR CHARTER SCHOOL ACADEMY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007**

<b>Net change in fund balances total governmental funds</b>	<b>\$ 330,343</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.	
Depreciation expense	(178,773)
Capital outlay	83,600
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid.	
Accrued interest payable, beginning of the year	85,850
Accrued interest payable, end of the year	(84,517)
Repayments of principal on long-term debts are expenditures in the governmental funds, but not in the statement of activities (where they are reductions of liabilities).	
Proceeds from loan	(83,600)
Principal repayment - certificates of participation	<u>80,000</u>
<b>Change in net assets of governmental activities</b>	<b><u><u>\$ 232,903</u></u></b>

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
JUNE 30, 2007**

	<u>Agency</u>
<b>ASSETS</b>	
Cash	<u>\$ 2,493</u>
<b>LIABILITIES</b>	
Due to student groups	<u>\$ 2,493</u>

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Benton Harbor Charter School Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

**A. Reporting Entity**

The Benton Harbor Charter School Academy (the "Academy") is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Ferris State University is the authorizing governing body for the Academy and has contracted with the Academy to charter the public school academy through June 2009. The Academy's board of directors is approved by the authorizing body and is authorized to manage the Academy and the property and affairs of the Academy. The Academy receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. The Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and fund financial statements (Continued)**

The Academy first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate district sources, interest income and other revenues).

The Academy does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental funds** - Governmental funds are those funds through which most Academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The Academy reports the following major governmental funds:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on certificates of participation.

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and fund financial statements (Concluded)**

**Other non-major funds**

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The Academy accounts for its food service activity in a special revenue fund.

The *capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

**Fiduciary funds** account for assets held by the Academy in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the Academy under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for the assets that the Academy holds for others in an agency capacity (primarily student activities).

**C. Measurement focus, basis of accounting and basis of presentation**

**Accrual method**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement focus, basis of accounting and basis of presentation (Concluded)**

**Modified accrual method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

**State revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to the Academy based on information supplied by the Academy. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The State revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

**BENTON HARBOR CHARTER SCHOOL ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other accounting policies**

1. Cash and equivalents include amounts in demand deposit accounts

The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intend to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

All receivables are shown net of an allowance for uncollectibles.

3. Prepaid expenditures

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other accounting policies (Continued)**

4. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Building	50 years
Furniture and equipment	5-20 years
Vehicles	3 years
Technology	5 years

The Academy's capitalization policy is to capitalize individual amounts exceeding \$5,000.

5. Long-term Obligation

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.



**BENTON HARBOR CHARTER SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)**

7. Fund balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Amounts reserved for debt service in the general fund consist of a portion of the amount due from other governmental units legally restricted for debt service. These funds are transferred to the debt service fund upon receipt.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is employed in governmental funds. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be re-appropriated in the subsequent fiscal year.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Chief Administrative Officer submits to the board of directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Prior to July 1, the budget is legally adopted by board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
3. The Chief Administrative Officer is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the board.

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)**

4. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The Academy does not consider these amendments to be significant.

**NOTE 3 - DEPOSITS AND RESTRICTED INVESTMENTS**

As of June 30, 2007, the Academy had the following investments:

<b>Investment Type</b>	<b>Fair value</b>	<b>Weighted average maturity (years)</b>	<b>Standard &amp; Poor's Rating</b>	<b>%</b>
First American Funds Treasury Obligations Fund - class D	<u>\$ 838,288</u>	0.0027	AAAm	<u>100.00%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

One day maturity equals 0.0027, one year equals 1.00

The Academy invests certain excess funds in external pooled investment funds which included treasury obligations. The treasury obligation reports as of June 30, 2007, the fair value of the Academy's investments is the same as the value of the pool shares.

These investments are restricted under the terms of the certificates of participation debt agreements primarily for debt service and maintenance and repair of the related facilities.

**Interest rate risk.** The Academy will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Academy's cash requirements.

**BENTON HARBOR CHARTER SCHOOL ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND RESTRICTED INVESTMENTS (Concluded)**

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2007, the Academy did not have investments in commercial paper and corporate bonds.

**Concentration of credit risk.** The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2007, \$63,919 of the Academy's bank balance of \$174,576 was exposed to custodial credit risk because it was uninsured and uncollateralized. The above amounts include interest bearing deposits. Fiduciary fund balances are not included in the above balances. As of June 30, 2007, none of the fiduciary fund's bank balance of \$2,493 was exposed to custodial credit risk.

**Custodial credit risk - investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Academy will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Academy will do business.

**Foreign currency risk.** The Academy is not authorized to invest in investments which have this type of risk.

**BENTON HARBOR CHARTER SCHOOL ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - CAPITAL ASSETS**

A summary of changes in the Academy's capital assets follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30 ,2007
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,500,000	\$	\$	\$ 1,500,000
Capital assets being depreciated:				
Building	3,593,940			3,593,940
Furniture and equipment	195,356		24,490	170,866
Vehicles		83,600		83,600
Technology	306,381		2,439	303,942
Depreciable capital assets	4,095,677	83,600	26,929	4,152,348
Accumulated depreciation:				
Building	366,174	73,084		439,258
Furniture and equipment	47,904	20,459	24,490	43,873
Vehicles		23,222		23,222
Technology	81,916	62,008	2,439	141,485
Total accumulated depreciation	495,994	178,773	26,929	647,838
Net depreciable capital assets	3,599,683	(95,173)		3,504,510
Net governmental capital assets	\$ 5,099,683	\$ (95,173)		\$ 5,004,510

Depreciation for the fiscal year ended June 30, 2007 amounted to \$178,773. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**BENTON HARBOR CHARTER SCHOOL ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - NOTE PAYABLE**

At June 30, 2007, the Academy had no amounts outstanding from state aid anticipation notes. Notes 1 and 2 matured July 20, 2006 and June 22, 2007, respectively. The notes are secured by future state school aid payments.

	Balance June 30, 2006	Additions	Payments	Balance June 30, 2007
Note 1 - 6.26%	\$ 102,907	\$	\$ 102,907	\$
Note 2 - 5.25%	870,000		870,000	
	<u>\$ 972,907</u>	<u>\$</u>	<u>\$ 972,907</u>	<u>\$</u>

**NOTE 6 - LONG-TERM DEBT**

The following is a summary of long-term obligation transactions of the Academy for the year ended June 30, 2007:

	Certificates of participation	Bank note	Total
Balance, July 1, 2006	\$ 6,520,000	\$	\$ 6,520,000
Addition		83,600	83,600
Repayments	80,000		80,000
Balance, June 30, 2007	6,440,000	83,600	6,523,600
Less current portion	85,000	26,144	111,144
Total due after one year	<u>\$ 6,355,000</u>	<u>\$ 57,456</u>	<u>\$ 6,412,456</u>

**BENTON HARBOR CHARTER SCHOOL ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - LONG-TERM DEBT (Concluded)**

Long-term debt currently outstanding is as follows:

2002 Series A term certificates due in annual installments of \$100,000 to \$1,080,000 through May 1, 2032 with interest ranging from 7% to 8%.	\$ 6,210,000
2002 Series B term certificates due in annual installments of \$85,000 to \$145,000 through May 1, 2009 with interest at 10%.	230,000
Bank note due in monthly installments of \$2,510 through May 2010, including interest at 5.25%. The loan is secured by the related vehicles.	<u>83,600</u>
Total general long-term debt	<u><u>\$ 6,523,600</u></u>

The annual requirements to amortize long-term debts outstanding as of June 30, 2007, including interest of \$8,814,715 are as follows:

Year ending June 30,	Principal	Interest	Total
2008	\$ 111,144	\$ 511,076	\$ 622,220
2009	172,765	500,955	673,720
2010	129,691	484,949	614,640
2011	105,000	477,100	582,100
2012	115,000	469,750	584,750
2013-2017	700,000	2,217,500	2,917,500
2018-2022	1,000,000	1,920,125	2,920,125
2023-2027	1,465,000	1,459,600	2,924,600
2028-2032	<u>2,725,000</u>	<u>773,600</u>	<u>3,498,600</u>
	<u><u>\$ 6,523,600</u></u>	<u><u>\$ 8,814,655</u></u>	<u><u>\$ 15,338,255</u></u>

An amount of \$788,433 is available in the debt service funds to service the certificates. The certificates may be paid off early beginning on May 1, 2012 at the discretion of the Academy at stated amounts based on the terms of the agreement.

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES**

Interfund receivable and payable balances at June 30, 2007 are as follows:

<u>Receivable fund</u>		<u>Payable</u>	
General fund	<u>\$ 21,481</u>	Food service fund	<u>\$ 21,481</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfunds goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, (3) payments between funds are made.

**NOTE 8 - TRANSFERS**

Operating transfers between the governmental funds were as follows:

<u>Operating transfers out</u>		<u>Operating transfers in</u>	
General fund	\$ 582,736	Debt service fund	\$ 582,736
Debt service fund	<u>8,266</u>	Capital projects fund	<u>8,266</u>
	<u>\$ 591,002</u>		<u>\$ 591,002</u>

The operating transfers to the debt service fund from the general fund were to pay the debt service principal and interest payments. Transfers to the capital projects fund were to comply with the maintenance and replacement requirements of the certificates of participation debt agreement.

**NOTE 9 - OVERSIGHT FEES**

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and proposal A obligation payments to Ferris State University, as set forth by contract, to reimburse the University Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2007, the Academy incurred expense of approximately \$88,000 for oversight fees.

**BENTON HARBOR CHARTER SCHOOL ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 - MANAGEMENT AGREEMENT**

The Academy had entered into a five year (through June 2009) management agreement with Choice Schools Associates LLC (Choice Schools) for operations of the Academy. Under the terms of the management agreement, Choice Schools' compensation for operating the Academy is a fixed fee of \$325,000 per year.

**NOTE 11 - PURCHASED SERVICES**

The Academy leases all employee services from Choice Schools. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of Choice Schools. The amount payable to Choice Schools at June 30, 2007 was approximately \$2,500.

**NOTE 12 - RISK MANAGEMENT**

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. To minimize the risk, the Academy carries commercial insurance.

**NOTE 13 - OPERATING LEASES**

In September of 2003, the Academy entered into a lease for copiers. Total payments were approximately \$32,000 for the year ending June 30, 2007. Minimum rental commitments at June 30, 2007 for all non-cancelable operating leases are as follows:

Year ending	
2008	\$ 32,400
2009	<u>5,400</u>
	<u><u>\$ 37,800</u></u>

**NOTE 14 - SUBSEQUENT EVENT**

On September 18, 2007, the Academy's Board of Directors approved a resolution to issue up to \$8,500,000 of bonded debt through the Michigan Public Education Facilities Authority for the purpose of refinancing the \$6,440,000 of outstanding Certificates of Participation (Series 2002A and 2002B). It is anticipated the bonds will be issued in October 2007. As of the report date, the bonds had not been issued.



## **REQUIRED SUPPLEMENTARY INFORMATION**

BENTON HARBOR CHARTER SCHOOL ACADEMY  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2007

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
REVENUES:				
Local	\$ 30,000	\$ 83,000	\$ 95,657	\$ 12,657
State sources	3,507,072	3,359,072	3,366,369	7,297
Federal sources	440,015	391,065	336,021	(55,044)
Incoming transfers		18,023	18,023	
Total revenues	3,977,087	3,851,160	3,816,070	(35,090)
EXPENDITURES:				
Instruction:				
Basic programs	834,714	889,230	906,351	(17,121)
Added needs	729,283	624,869	585,973	38,896
Total instruction	1,563,997	1,514,099	1,492,324	21,775
Support services:				
Pupil	66,637	60,730	55,142	5,588
Instructional staff	124,721	132,880	78,060	54,820
General administration	474,212	462,448	461,782	666
School administration	255,599	258,285	239,163	19,122
Business	35,000	33,250	31,729	1,521
Operation and maintenance	365,361	354,500	323,359	31,141
Pupil transportation services	309,000	327,804	319,658	8,146
Central services	27,500	13,000	13,222	(222)
Total support services	1,658,030	1,642,897	1,522,115	120,782

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
EXPENDITURES (Concluded):				
Debt service:				
Principal retirement	\$	\$ 2,150	\$	\$ 2,150
Interest and fiscal charges		365		365
Community services	10,000	100		100
Total expenditures	3,232,027	3,159,611	3,014,439	145,172
EXCESS OF REVENUES OVER EXPENDITURES	745,060	691,549	801,631	110,082
OTHER FINANCING SOURCES (USES):				
Loan proceeds		83,600	83,600	
Operating transfers out	(595,000)	(598,000)	(582,736)	15,264
Total other financing sources (uses)	(595,000)	(514,400)	(499,136)	15,264
NET CHANGE IN FUND BALANCE	\$ 150,060	\$ 177,149	302,495	\$ 125,346
FUND BALANCE:				
Beginning of year			244,042	
End of year			\$ 546,537	

## **ADDITIONAL INFORMATION**

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
NONMAJOR GOVERNMENTAL FUND TYPES  
COMBINING BALANCE SHEET  
JUNE 30, 2007**

	<b>Special revenue fund</b>	<b>Capital projects fund</b>	<b>Total nonmajor governmental funds</b>
<b>ASSETS</b>			
<b>ASSETS:</b>			
Cash	\$ 3,475	\$	\$ 3,475
Investments		49,855	49,855
Due from other governmental units	26,786		26,786
	<hr/>	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 30,261</b>	<b>\$ 49,855</b>	<b>\$ 80,116</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 3,666	\$	\$ 3,666
Due to other funds	21,481		21,481
	<hr/>	<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>	<b>25,147</b>		<b>25,147</b>
	<hr/>	<hr/>	<hr/>
<b>FUND BALANCES:</b>			
Reserved for capital projects		49,855	49,855
Undesignated	5,114		5,114
	<hr/>	<hr/>	<hr/>
<b>TOTAL FUND BALANCES</b>	<b>5,114</b>	<b>49,855</b>	<b>54,969</b>
	<hr/>	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 30,261</b>	<b>\$ 49,855</b>	<b>\$ 80,116</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2007**

	<b>Special revenue fund</b>	<b>Capital projects fund</b>	<b>Total nonmajor governmental funds</b>
<b>REVENUES:</b>			
State sources	\$ 4,230	\$	\$ 4,230
Federal aid	216,735		216,735
Investment income	2,331	1,996	4,327
	<hr/>	<hr/>	<hr/>
Total revenues	223,296	1,996	225,292
	<hr/>	<hr/>	<hr/>
<b>EXPENDITURES:</b>			
Salaries	52,576		52,576
Benefits	22,719		22,719
Food	146,068		146,068
	<hr/>		<hr/>
Total expenditures	221,363		221,363
	<hr/>		<hr/>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	1,933	1,996	3,929
	<hr/>	<hr/>	<hr/>
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfer in		8,266	8,266
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)		8,266	8,266
	<hr/>	<hr/>	<hr/>
<b>NET CHANGE IN FUND BALANCES</b>	1,933	10,262	12,195
	<hr/>	<hr/>	<hr/>
<b>FUND BALANCES, beginning of year</b>	3,181	39,593	42,774
	<hr/>	<hr/>	<hr/>
<b>FUND BALANCES, end of year</b>	\$ 5,114	\$ 49,855	\$ 54,969
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
FULL TERM CERTIFICATES OF PARTICIPATION - SERIES 2002A  
YEAR ENDED JUNE 30, 2007**

\$6,210,000 Certificates issued May 1, 2002.

Principal due May 1	Interest due		Debt service requirement for fiscal year	
	November 1	May 1	June 30,	Amount
\$	\$ 242,050	\$ 242,050	2008	\$ 484,100
	242,050	242,050	2009	484,100
100,000	242,050	242,050	2010	584,100
105,000	238,550	238,550	2011	582,100
115,000	234,875	234,875	2012	584,750
120,000	230,850	230,850	2013	581,700
130,000	226,650	226,650	2014	583,300
140,000	222,100	222,100	2015	584,200
150,000	217,200	217,200	2016	584,400
160,000	211,950	211,950	2017	583,900
170,000	206,350	206,350	2018	582,700
185,000	199,763	199,762	2019	584,525
200,000	192,594	192,594	2020	585,188
215,000	184,844	184,844	2021	584,688
230,000	176,512	176,512	2022	583,024
250,000	167,600	167,600	2023	585,200
270,000	157,600	157,600	2024	585,200
290,000	146,800	146,800	2025	583,600
315,000	135,200	135,200	2026	585,400
340,000	122,600	122,600	2027	585,200
365,000	109,000	109,000	2028	583,000
395,000	94,400	94,400	2029	583,800
425,000	78,600	78,600	2030	582,200
460,000	61,600	61,600	2031	583,200
1,080,000	43,200	43,200	2032	1,166,400
<u>\$ 6,210,000</u>	<u>\$ 4,384,988</u>	<u>\$ 4,384,987</u>		<u>\$ 14,979,975</u>

The above certificates bear interest rates at 7% to 8%. The certificate proceeds were used for the acquisition of real property and improvements thereto.

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
FULL TERM CERTIFICATES OF PARTICIPATION - SERIES 2002B  
YEAR ENDED JUNE 30, 2007**

\$500,000 Certificates issued May 1, 2002.

Principal due May 1	Interest due		Debt service requirement for fiscal year	
	November 1	May 1	June 30,	Amount
\$ 85,000	\$ 11,500	\$ 11,500	2008	\$ 108,000
145,000	7,250	7,250	2009	159,500
<u>\$ 230,000</u>	<u>\$ 18,750</u>	<u>\$ 18,750</u>		<u>\$ 267,500</u>

The above certificates bear interest rates at 10.0%. The certificate proceeds were used for the acquisition of real property and improvements thereto.

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
BANK NOTE  
YEAR ENDED JUNE 30, 2007**

\$83,600 bank note issued May 15, 2007.

		Debt service requirement for fiscal year	
Principal	Interest	June 30,	Amount
\$ 26,144	\$ 3,976	2008	\$ 30,120
27,765	2,355	2009	30,120
29,691	849	2010	30,540
<u>\$ 83,600</u>	<u>\$ 7,180</u>		<u>\$ 90,780</u>

The above note payable bears interest rate at 5.25%. The note payable was used for the acquisition of school buses.



**BENTON HARBOR CHARTER SCHOOL ACADEMY**

**ADDITIONAL REPORTS REQUIRED BY  
OMB CIRCULAR A-133**

**YEAR ENDED JUNE 30, 2007**

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors  
Benton Harbor Charter School Academy  
Benton Harbor, Michigan

October 12, 2007

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Benton Harbor Charter School Academy as of and for the year ended June 30, 2007, which collectively comprise Benton Harbor Charter School Academy's basic financial statements and have issued our report thereon dated October 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Benton Harbor Charter School Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Academy's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control.

To the Board of Directors  
Benton Harbor Charter School Academy  
Benton Harbor, Michigan

October 12, 2007

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Benton Harbor Charter School Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Benton Harbor Charter School Academy in a separate letter dated October 12, 2007.

This report is intended solely for the information and use of the Board of Directors, management and the U.S. Department of Education, Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Maner, Costerisan + Ellis, P.C.*

Certified Public Accountants



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**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors  
Benton Harbor Charter School Academy  
Benton Harbor, Michigan

October 12, 2007

**Compliance**

We have audited the compliance of Benton Harbor Charter School Academy with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. Benton Harbor Charter School Academy's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Benton Harbor Charter School Academy's management. Our responsibility is to express an opinion on Benton Harbor Charter School Academy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Benton Harbor Charter School Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Benton Harbor Charter School Academy's compliance with those requirements.

To the Board of Directors  
Benton Harbor Charter School Academy  
Benton Harbor, Michigan

October 12, 2007

In our opinion, Benton Harbor Charter School Academy complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year June 30, 2007.

### **Internal Control Over Compliance**

The management of Benton Harbor Charter School Academy is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Benton Harbor Charter School Academy's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Academy's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Academy's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

To the Board of Directors  
Benton Harbor Charter School Academy  
Benton Harbor, Michigan

October 12, 2007

### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Benton Harbor Charter School Academy as of and for the year ended June 30, 2007 and have issued our report thereon dated October 12, 2007. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise Benton Harbor Charter School Academy's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Maner, Costerisan + Ellis, P.C.*

Certified Public Accountants

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2007**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 6/30/2006	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued (deferred) revenue 6/30/2007
<u>U.S. Department of Agriculture:</u>								
Passed through Michigan Department of Education:								
Child nutrition cluster:								
National School Lunch Program - Section 4	10.555	061950	\$ 14,626	\$ 3,358	\$ 12,938	\$ 5,046	\$ 1,688	\$
National School Lunch Program - Section 4		071950	13,198			11,314	13,198	1,884
National School Lunch Program - Section 11		061960	124,792	28,593	110,407	42,978	14,385	
National School Lunch Program - Section 11		071960	110,800			95,401	110,800	15,399
			<u>263,416</u>	<u>31,951</u>	<u>123,345</u>	<u>154,739</u>	<u>140,071</u>	<u>17,283</u>
National School Lunch Program - Breakfast	10.553	061970	76,814	17,426	67,756	26,484	9,058	
National School Lunch Program - Breakfast		071970	67,606			58,103	67,606	9,503
			<u>144,420</u>	<u>17,426</u>	<u>67,756</u>	<u>84,587</u>	<u>76,664</u>	<u>9,503</u>
Total U.S. Department of Agriculture			<u>407,836</u>	<u>49,377</u>	<u>191,101</u>	<u>239,326</u>	<u>216,735</u>	<u>26,786</u>
<u>U.S. Department of Education:</u>								
Passed through Michigan Department of Education:								
Title I	84.010	0615300506	365,130	45,729	365,130	45,729		
		0515500506	30,000	3,973	3,973	30,000	26,027	
		0715300607	301,377			201,296	263,363	62,067
			<u>696,507</u>	<u>49,702</u>	<u>369,103</u>	<u>277,025</u>	<u>289,390</u>	<u>62,067</u>
Service Provider Self Review	84.027A	0704400607	4,000				4,000	4,000
Title V LEA Allocation	84.298	0602500506	6,092	6,092	6,092	6,092		

The accompanying notes are an integral part of this schedule.



**BENTON HARBOR CHARTER SCHOOL ACADEMY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2007**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 6/30/2006	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued (deferred) revenue 6/30/2007
<u>U.S. Department of Education (Concluded):</u>								
Passed through Michigan Department of Education (Concluded):								
Title II, Part D -								
Technology literacy challenge grants	84.318	0642900506	\$ 6,812	\$ 6,812	\$ 6,812	\$ 6,812	\$	\$
Title II, Part A -								
Improving teacher quality	84.367	0605200506	58,935	28,619	58,935	28,619		
		0705200607	47,559			7,000	23,418	16,418
			106,494	28,619	58,935	35,619	23,418	16,418
Total passed through Michigan Department of Education			819,905	91,225	440,942	325,548	316,808	82,485
Passed through Berrien County Intermediate School District:								
Math and science partnerships	84.366		1,190			1,190	1,190	
Total U.S. Department of Education			821,095	91,225	440,942	326,738	317,998	82,485
<u>U.S. Department of Health and Human Services:</u>								
Passed through Berrien County Intermediate School District:								
Medicaid Outreach	93.778		18,023			18,023	18,023	
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,246,954	\$ 140,602	\$ 632,043	\$ 584,087	\$ 552,756	\$ 109,271

The accompanying notes are an integral part of this schedule.

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2007**

1. Basis of presentation - The accompanying schedule of expenditures of federal awards includes the grant activity of Benton Harbor Charter School Academy and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.
2. CFDA #10.555 and 10.553 was audited as the major program, representing 39% of expenditures. The Academy qualifies for low risk auditee status.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. Management has utilized the Grant Section Auditors' Report (Form R7120) and Grant Audit Report in preparing the Schedule of Expenditures of Federal Awards.
5. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	\$ 336,021
Special revenue fund	<u>216,735</u>
Subtotal	<u><u>\$ 552,756</u></u>

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007**

**Section I - Summary of Auditors' Results**

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***Financial Statements***

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported
- Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified: \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes   X   None reported

Type of auditors' report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? \_\_\_\_\_ Yes   X   No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.555 and 10.553	Child nutrition cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?   X   Yes \_\_\_\_\_ No

**Section II - Financial Statement Findings**

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None

**Section III - Federal Award Findings and Questioned Costs**

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None

**BENTON HARBOR CHARTER SCHOOL ACADEMY  
SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2007**

There were no prior year audit findings.



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October 12, 2007

To Board of Directors  
Benton Harbor Charter School Academy  
Benton Harbor, Michigan

In planning and performing our audit of the financial statements of Benton Harbor Charter School Academy as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Benton Harbor Charter School Academy's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated October 12, 2007 on the financial statements of Benton Harbor Charter School Academy. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows.

**New Notification Requirements for Related Not-for-Profit Organizations with Gross Receipts of \$25,000 or less Such as Booster Groups and PTO's**

The Pension Protection Act of 2006 requires these organizations to file an annual electronic notice for tax periods beginning after December 31, 2006, if these organizations are not required to file Form 990 (or 990-EZ), Return of Organization Exempt From Income Tax because their gross receipts are normally \$25,000 or less.

If they are a section 509(a)(3) supporting organization, generally, they must file a paper or electronic Form 990 (or Form 990-EZ) even if their gross receipts are normally \$25,000 or less. However, if they are a supporting organization of a religious organization and their gross receipts are normally \$5,000 or less they may file an annual electronic notice instead of Form 990 (or Form 990-EZ).

The annual electronic notice is due by the 15<sup>th</sup> day of the fifth month after the close of their tax period. For example, if their tax period ends on December 31, 2007, the annual electronic notice is due May 15, 2008.

The notice will require these organizations to provide the following information:

- Organization's legal name,
- Any other names your organization uses,
- Organization's mailing address,
- Organization's website address (if applicable),
- Organization's employer identification number (EIN),
- Name and address of a principal officer of your organization.
- Organization's annual tax period,
- Verify that your organization's annual gross receipts are still normally \$25,000 or less, and
- Indicate if your organization has terminated (is no longer in business).

### **New Auditing Standards**

Recently, 10 new auditing standards have been released and are effective, or will become effective for your June 30, 2008 year end. In reviewing the new standards, they will have an impact on our overall audit approach. The trend is to perform audit procedures utilizing more of a risk based approach. One area which will continue to be emphasized is your internal controls.

### **New Interpretation Of Deferred Compensation Rules Applicable To Teachers And Similar Employees**

In August of 2007, the IRS issued new questions and answers related to deferred compensation which can effect teachers and similar employees.

When employees can elect to defer part of their compensation to a future year, they are generally subject to the rules applicable to deferred compensation under the Internal Revenue Code. These payments could be subject to an additional 20% tax if the specified procedures are not followed. For example, school employees who work 10 months but are paid over 12 months would be deferring compensation into a future year.

These rules are not applicable unless an election must be made. If a school district provides that all employees must spread their pay over 12 months, these rules do not apply.

In order to avoid imposition of extra taxes, the employees must give a written or electronic election to notify the employer that they want to spread out the compensation. This election must be provided before the start of the school year and must be irrevocable. The election must state how the compensation is going to be paid (for example, ratably over the 12 months starting with the beginning of the school year). This election does not need to be made for future years if the arrangement provides that the election will remain in place until the employee elects a change. These rules are effective January 1, 2008. Therefore, they are not applicable until the election for the 2008 - 2009 school year.

To Board of Directors  
Benton Harbor Charter School Academy  
Benton Harbor, Michigan

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October 12, 2007

This report is intended solely for the information and use of Benton Harbor Charter School Academy, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

*Maner, Costerisan + Ellis, P.C.*





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October 12, 2007

To the Board of Directors  
Benton Harbor Charter School Academy  
Benton Harbor, Michigan

We have audited the financial statements of Benton Harbor Charter School Academy for the year ended June 30, 2007, and have issued our report thereon dated October 12, 2007. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Benton Harbor Charter School Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Benton Harbor Charter School Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Benton Harbor Charter School Academy's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major programs for the purpose of expressing an opinion on Benton Harbor Charter School Academy's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Benton Harbor Charter School Academy's compliance with those requirements.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Benton Harbor Charter School Academy are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by Benton Harbor Charter School Academy during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates to report.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Academy's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Academy, either individually or in the aggregate, indicate matters that could have a significant effect on the Academy's financial reporting process. Management has approved all adjustments.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

To the Board of Directors  
Benton Harbor Charter School Academy  
Benton Harbor, Michigan

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October 12, 2007

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the board of directors and management of Benton Harbor Charter School Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Maner, Costerisan + Ellis, P.C.*